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TAGS: [PREL](#) [KNNP](#) [MNUC](#) [PTER](#) [IR](#) [IS](#)
SUBJECT: PDAS MCNERNEY'S OCTOBER 24 MEETING AT THE ISRAELI
MFA ON IRAN: THE INTERNAL SITUATION (CABLE 1 OF 5)

Classified By: Marc J. Sievers, Political Counselor.
Reasons: 1.4 (b)(d).

SUMMARY

¶1. (S) In an October 24 meeting at the MFA, an Israeli government interagency team led by MFA Deputy Director General (Strategic Affairs) Miriam Ziv shared its assessment of the internal situation in Iran with a U.S. team led by ISN PDAS Patricia McNerney. The Israeli side made the following points: (A) it is not clear what the replacement of Iranian nuclear negotiator Larijani means; (B) sanctions are having an effect in Iran, and increasing pressure on Ahmadinejad and his supporters; and (C) Ahmadinejad is facing obstacles in his effort to garner support from leaders and marginalized peoples in Latin America, Asia and other parts of the developing world. END SUMMARY.

¶2. (S) On October 24, ISN PDAS Patricia McNerney, ISN/RA Middle East Team Leader Kurt Kessler, ISN/CPI Director Tony Foley, and NEA Iran Desk Officer Sean Misko and embassy POL-MIL officer met at the Israeli MFA with an interagency team led by MFA DDG for Strategic Affairs, Miriam Ziv, to exchange information on Iran and its nuclear program. The Israeli team included representatives from the MFA, the Prime Minister's office, Israeli Defense Intelligence (IDI), and the Mossad. This is the first of three reporting cables reporting on the discussions at the MFA, and concerns the internal situation in Iran and the effects of sanctions. Septels will review discussions in the MFA on the technological stage of Iran's nuclear program, and ongoing and future counter-terror finance efforts, as well as discussions with Israel Atomic Energy Commission (IAEC) officials about Iran and the IAEA.

¶3. (S) Ambassador Ziv opened the meeting by noting that she had met with four of the P-5 ambassadors (Russia, France, UK, China) in New York on the margins of the UN General Assembly. She was, she said, disturbed to learn that there was no activity going on in New York with respect to a third UNSC sanctions resolution on Iran.

UNCLEAR WHAT LARIJANI'S REPLACEMENT MEANS

¶4. (S) An official from the MFA's Center for Strategic Research (the equivalent of State's INR Bureau) then provided his analysis of Iran's change in its nuclear negotiator. He said that the change left Israel with more questions than answers. Iran, nevertheless, remains able to convey to the

rest of the world that it is cooperating, as the new negotiator had already met with EU High Representative Javier Solana. In the MFA's view, Iran is "going through the motions" to suggest that everything is fine. Iran's new negotiator reportedly stated that negotiations with Solana would continue into November. Larijani's resignation was a surprise for Israel. There appears to be no urgency on the Iranian side. The Iranians know that nothing will happen until the beginning of next year. Negotiations with Iran in the IAEA context will go on as if nothing had happened.

15. (S) The MFA official suggested that the change in negotiators may have been connected with Russian President Putin's October 15-17 visit to Iran to attend the Caspian Summit. The MFA official claimed that Iran expected that Putin would "bring something good with him." Instead, Putin met with Supreme Leader Ayatollah Khamenei and only proposed supplying power plants to Iran, and did not discuss enrichment. He observed that there was no statement about the Bushehr reactor. Ziv recalled that the Russian ambassador to the UN had told her before PM Olmert's visit to Russia that Putin would tell Olmert that Russia would not supply Iran with fuel for the Bushehr reactor. PM Olmert subsequently declared in public that the Russians would not provide the fuel for the Bushehr reactor. MFA Nonproliferation and Counterterrorism Department Deputy Director Jonathan Miller added that a Russian embassy official told him that the contracts over Bushehr need to be "re-done," that this will take a long time, and that fuel supply is not even "on the table" for now. The Mossad representative said that the Russians have decided to supply fuel, but are in a "wait-and-see" mode, and that it will not happen for a few months. An IDI officer said that work on

TEL AVIV 00003385 002 OF 003

the contracts continues, and that the IAEA is involved in the arrangements, such as the sealing of the fuel.

16. (S) Returning to Larijani's resignation, the MFA official said that it may be part of an escalating power struggle among Iran's conservative elites. The signals it sends are unclear. The MFA noted that Jalili is reportedly a close associate and supporter of Ahmadinejad. While Ahmadinejad does not control the Supreme Council for National Security (SCNS), the appointment of Jalili as SCNS secretary -- a crucial position -- was significant and appeared to reflect fallout in the relationship between Ahmadinejad and Larijani. As to the question, "Why Jalili?" the MFA official noted that he is inexperienced and young, and wondered out loud whether Jalili is just a front man. He noted that several high-ranking conservatives, including former Iranian FM Veleyati, have criticized the change. Former Iranian President Rafsanjani's brother also criticized Larijani's removal. The MFA official wondered whether it meant that Rafsanjani is coming out of silence and positioning himself for a comeback. The MFA official continued by suggesting that Ahmadinejad was dissatisfied that Larijani had been appointed as Iran's nuclear negotiator. Larijani had unsuccessfully run against Ahmadinejad in the 2005 presidential elections, and was appointed by Iran's Supreme Leader, Ayatollah Khamenei. He also observed that there were conflicting rumors -- one, that Larijani remains in the system, with Jalili merely serving as a go-between; and the other, that Larijani and his entire team have been removed.

17. (S) Discussion then led to the view that Iran's Supreme Leader is strengthening Ahmadinejad, and that the hard-line conservatives are gaining power at the expense of traditionalists like Larijani. Jalili seems to be more of a revolutionary, like Ahmadinejad. The view also emerged that external factors appear to be the primary driver on the Iran nuclear issue. The resignation may simply reflect a change in tactics as opposed to policy. All agreed that Jalili would probably be more difficult to negotiate with than Larijani.

SANCTIONS ARE HAVING AN EFFECT IN IRAN

¶18. (S) The MFA official then observed that it appears that some of Iran's assumptions have been shaken. First, two Chapter VII UNSC sanctions resolutions have been passed unanimously. Secondly, internal opposition to Ahmadinejad's hard-line faction appears to feel more empowered, as demonstrated by more vocal criticism of Ahmadinejad's policies. Indeed, the unanimous adoption of UNSCR 1737 led to a flood of public criticism of Ahmadinejad. The MFA official assessed that the sustained criticism of Ahmadinejad's handling of the economy suggests that sanctions are working in Iran. Ahmadinejad had recently run into protests at two universities, and appears to be losing his popularity among Iran's lower class. Anecdotal information shows that the public is still dissatisfied with the fuel rationing, especially as cheap fuel was a promise of the Revolution, and one of Ahmadinejad's election promises. The MFA official assessed that the fuel rationing was the result of long-standing USG sanctions and fears within the regime that the West would attempt to restrict Iran's import of refined petroleum. (COMMENT: This differs from the USG assessment that Iran's fuel rationing program is the result of Iran's limited domestic refining capacity. END COMMENT.)

¶19. (S) The MFA official said that sanctions are also increasing the risk premium associated with investments in Iran. Ahmadinejad had recently dismissed the head of Iran's Central Bank, who was not appointed by Ahmadinejad, as well as the oil minister. The MFA official assessed that the high profile personnel changes may be a response to public criticism of Ahmadinejad's handling of the economy. The official added that Ahmadinejad believes he should do "more of the same" on the economy, even if it does not work. Despite these challenges, Israeli analysts were originally of the view that Ahmadinejad was losing power. His ability to shuffle personnel and insert supporters into high-level positions in key ministries, however, suggests that Ahmadinejad may be adapting and learning how to cope.

¶10. (S) The Mossad official said that Iran's middle class and bazaar merchants are running into real problems at Iran's banks. Even simple transactions through Dubai carry an

TEL AVIV 00003385 003 OF 003

increased risk premium between 20-40 percent. The Israeli MFA official also noted that problems are cropping up in Iran's investment sector, with many companies having doubts which in turn have led to hesitation in doing business. There is an increasing view among the bazaaris that something must be done about the sanctions. As a result, Iran is forced to look for new partners in Europe and Asia.

¶11. (S) The IDI officer observed that Ahmadinejad made a huge mistake when he lowered interest rates below the rate of inflation. He cautioned, however, that Ahmadinejad could survive. He could say that his ministers have made mistakes, dismiss them, and continue with his own policies.

¶12. (S) Regarding sanctions, the IDI officer observed that half a year later, they are having a psychological effect across the board. Advisors on the Iranian economy, in addition to bankers, are now feeling the pressure. Even the Supreme Leader might see problems and decide that something must be done. At the same time, Ahmadinejad disputes this. He feigns confidence by asserting that the Hidden Imam will return and solve all of Iran's problems.

AHMADINEJAD FINDING IT HARD TO GARNER SUPPORT ABROAD

¶13. (S) Regarding Ahmadinejad's efforts to build alliances with leaders in Latin America and Asia, the MFA official said

that he has reached out to the developing world through his outlandish statements on the Holocaust. He is viewed as a hero by some in the Arab world, and leftists in Latin America support him. The problem for Ahmadinejad, the official observed, is that the friction between the Sunnis and Shia is at its height due to Iraq. Leaders of the Arab world are also worried that Hizballah might steal the show in Lebanon. Ahmadinejad is working hard but is facing obstacles in developing diplomatic support for his stance. The IDI officer said that Ahmadinejad is having problems getting support from "people in the street" in Latin America. Those people do not share his comparison of the Iranian Revolution and their revolutions. According to the MFA official, the Iranian Government recently hosted a conference in Tehran aimed at comparing the Latin American and Iranian revolutions. One of the invited guests was Che Guevara's daughter, who used her speech to criticize the Iranian Revolution and make clear that her father's ideas were very different from those propagated by Iran's revolutionary mullahs. Some of the Latin American leaders are also wary of his attempts to reach out to their peoples. They see it as a challenge to their power. The IDI officer said Israel is concerned about "opaque Hizballah / Al Qods Force activity" in Latin America. He did not elaborate.

¶14. (S) Discussion then turned to public diplomacy, and the success Israel has had with its Farsi-language Radio Israel broadcasts into Iran. The MFA official said that pressure is increasing on Tehran, and that this is evidenced by more criticism of the regime on blog sites, and the expansion of criticism into new areas.

¶15. (U) This cable has not been reviewed by ISN PDAS Patricia McNerney.

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